

Meeting Date: 05-01-07

# AGENDA REPORT

Agenda Item # 4A

Santa Clara

City of Santa Clara, California



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**DATE:** April 27, 2007

**TO:** City Manager/Executive Director for Council/Redevelopment Agency Action

**FROM:** Director of Finance/Treasurer for Redevelopment Agency

**SUBJECT:** Tax Increment Study for North of Bayshore and University (Downtown) Project Areas

## EXECUTIVE SUMMARY:

The May 1, 2007 meeting represents the third meeting of the Council/Agency sitting as a "Committee of the Whole". The intent of the meeting is to present the Redevelopment Agency's Tax Increment Study for the City's two RDA Project Areas: the North of Bayshore and University (Downtown) Areas. The study is comprised of two parts:

- Property Tax analysis and projections, performed by Keyser Marston, a real estate consulting firm with expertise in economic feasibility, redevelopment and tax increment. Exhibit A.
- Bonding Capacity analysis and projections, performed by Kelling, Northcross and Nobriga, a financial advisory firm with expertise in financing and redevelopment. Exhibit B.

The study addresses the viability of tax increment revenue in the two RDA project areas. The summary findings include details of the bonding capacity as follows:

- North of Bayshore Area: Continuing the 30% housing set aside policy allows for an estimated \$13.1 million in new money bonding capacity.
- North of Bayshore Area: Revising the current 30% set-aside policy to a 20% mandatory housing set aside policy allows for an estimated \$45.3 million in new money bonding capacity.
- University Area: Continuing the existing 20% mandatory housing set aside policy allows for an estimated \$3.1 million in new money bonding capacity.
- The Staff recommendation is to proceed with an ordinance to amend the two redevelopment plans under SB211 to eliminate the existing deadlines to incur debt. Staff recommends referring this to the City Manager/Executive Director to determine the appropriate time to proceed with the ordinance.
- The Staff further recommends revisiting the 30% housing set aside policy for the North of Bayshore Area if the decision to issue additional bonds is made; the time estimate for this policy review is with the 2008-09 budget. City Council originally adopted the policy and specified that this policy be reviewed on an annual basis.

## ADVANTAGES AND DISADVANTAGES OF ISSUE:

Receiving the tax increment analysis of the new money bonding capacity in the North of Bayshore and University Project areas allows Council/Agency to continue the process of evaluating the feasibility of two key projects: the 49ers stadium financing in the North of Bayshore Project Area and the Downtown Revitalization project in the University Project Areas. The advantage of proceeding with an ordinance to amend the RDA Plan to adopt a "minor" plan amendment under SB211 is that it allows the RDA to issue additional bonds to finance projects in the redevelopment areas if determined by Council/Agency policy to do

so.

RDA Tax Increment Study for North of Bayshore and University (Downtown) Project Areas  
May 1, 2007

**ECONOMIC/FISCAL IMPACT:**

The cost of the Tax Increment Study of approximately \$17,000 was anticipated in the 2006-07 RDA budget and is not part of the \$200,000 appropriated for specialty consultants for the 49ers stadium study. Without a plan amendment under SB211, the Agency would not be able to issue additional bonds, as that authority expired in 2004 for the North of Bayshore Project Area and in 2000 for the University (Downtown) Project Area.


**RECOMMENDATION:**

That the Council/Agency refer the report titled "Tax Increment Study April 2007" to the City Manager/Executive Director for inclusion in the set of recommendations to be developed for the projects in the City's two RDA Project Areas and further refer to the City Manager/Executive Director to determine the appropriate time to adopt a "minor" plan amendment under SB211 enabling the Redevelopment Agency to eliminate the deadline to incur debt.



Mary Ann Parrot  
Director of Finance/Treasurer  
*Documents Related to this Report:*  
1) Tax Increment Study April 2007

APPROVED:

  
Jennifer Sparacino

City Manager/Executive Director for Agency

- 2) Exhibit A: Revised Tax Increment Projection
- 3) Exhibit B: Santa Clara Redevelopment Bonding Capacity

# City Of Santa Clara Redevelopment Agency Tax Increment Study

**May 1, 2007**

(Revised for May 1, 2007 City Council Meeting)

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## RDA Summary – Level 1

**TI Study Summary**  
Objectives  
Assumptions  
Summary Table  
Opportunities  
and Obstacles

**Bayshore North and University  
Project Areas**  
Maps  
Budget  
Current Positions and Projects  
Affordable Housing Set Asides  
Extensions  
Pass Throughs

**RDA Basics**  
Definition  
History  
Characteristics  
Timeline  
Limits  
Activities  
Tools  
Tax Increment  
Definition

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# City Of Santa Clara Redevelopment Agency Tax Increment Study

May 1, 2007

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## RDA Summary – Level 1



### TI Study Summary

Objectives  
Assumptions  
Summary Table  
Opportunities  
and Obstacles

### Bayshore North and University Project Areas

Maps Extensions  
Budget Pass Throughs  
Current Positions and Projects  
Affordable Housing Set Asides

### RDA Basics

Definition Activities  
History Tools  
Characteristics Tax Incre-  
Timeline ment  
Limits Definition

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## RDA Basics

- Definition of redevelopment
- History
- Characteristics
- Timeline
- Limits
- Activity
- Tools
- Definition of Tax Increment

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## Redevelopment Defined

- The planning, development, re-planning, redesign, clearance, reconstruction, or rehabilitation of all or part of a survey area.
- The provision of residential, commercial, industrial, public, or other structures or spaces appropriate or necessary to the general public.
- Health and Safety Code Section 33000

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## California Community Redevelopment Law

- 1945 California Community Redevelopment Act
  - Authorized cities and counties to create redevelopment agencies as vehicle to address blight and economic distress
- 1957 Santa Clara RDA established
  - University Project 1961
  - North of Bayshore Project 1973
- 1994 AB 1290
  - Major overhaul of redevelopment law
  - Required time and fiscal limits on project areas
- Numerous other statutes

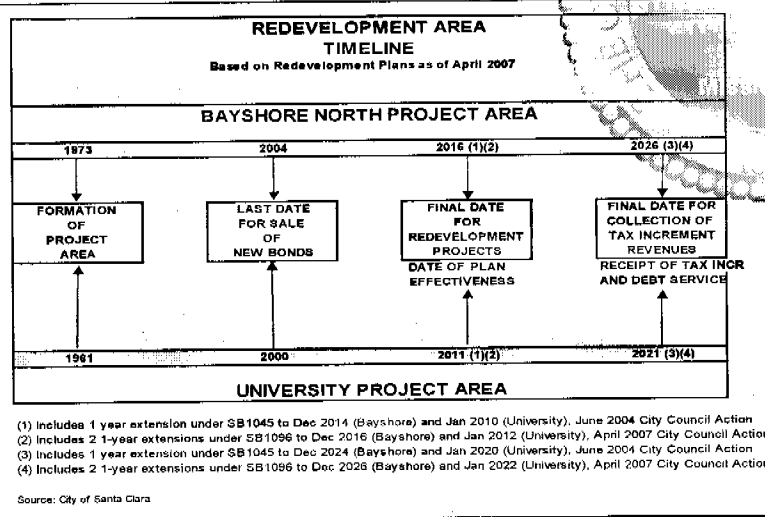
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## Characteristics

- Legally a state agency
  - Separate from the City
  - City Council serves as legislative body
- City Council adopts a redevelopment plan and project areas
  - University 1961
  - Bayshore North 1973
- Time restrictions
  - Incurring debt
  - Amendments
  - Plan activity
  - Tax increment collection
  - Eminent domain

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# Redevelopment Area Timeline



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# Fiscal Limits RDA Funds

Allowed	Not Allowed
1. Tax Increment can be pledged as security for bonds.	1. Cannot be spent outside redevelopment project area except for affordable housing and for public improvements that directly benefit the project area.
2. Tax increment bonds can be issued without vote of public (since it is not taxes, but increment).	2. Cannot be used to pay for private improvements, except affordable housing.
3. Can be used to pay for relocation of existing businesses.	3. Is not to be used for the construction or rehabilitation of city hall.
4. Provide loans for rehabilitation.	4. Cannot be used for on-going operations and maintenance costs.
5. Pay for land for, and construction of, public improvements.	
6. Pay for land, site clearance and site preparation for private development.	
7. Must allocate 20% minimum to affordable housing initiatives.	

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## Redevelopment Activities

- Construct public infrastructure
- Prepare site for development
- Buy and sell property
- Improve dilapidated facilities
- Mitigate environmental impacts
- Build affordable housing
- Eliminate "blight"
- Use of Tax Increment financing for all of the above

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## Redevelopment Tools

- Three powerful tools
  - Redistribute property tax revenues (tax increment)
  - Sell/lease property for private development
  - Eminent domain
    - Expired in 1998 in both project areas, North of Bayshore and University
    - Ordinance #1559, November 18, 1986

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## Tax Increment

- Project area adopted with assessed values at time of adoption designated as "base year" including the assessed value of all land and improvements within the boundaries of the project area.
- Property taxes generated by increases in assessed value of project area property above the base year value is paid to the agency as tax increment.
- The tax increment can be allocated and paid to the agency for a specified number of years. For North of Bayshore this is through December 2026; for University this is until January 2022.

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## Tax Increment

Before (Base Year)

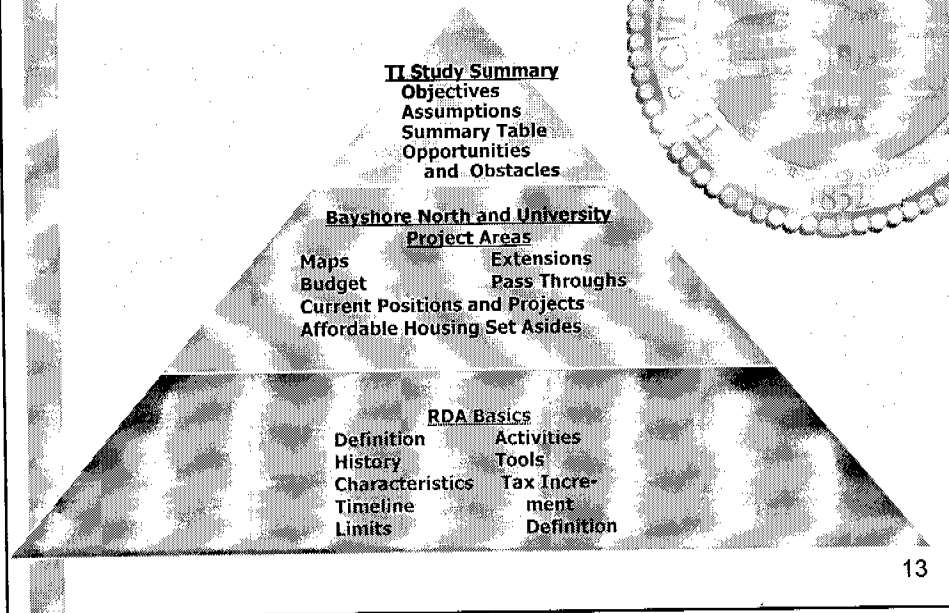
After

**Tax Increment**

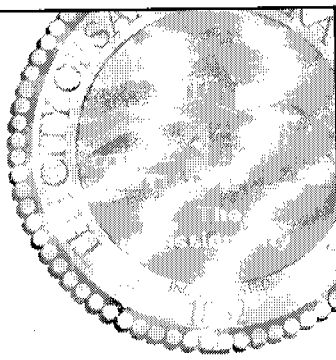
- New Development
- Reassessment (Property Sale)
- Inflationary Growth
- Property Tax Revenue

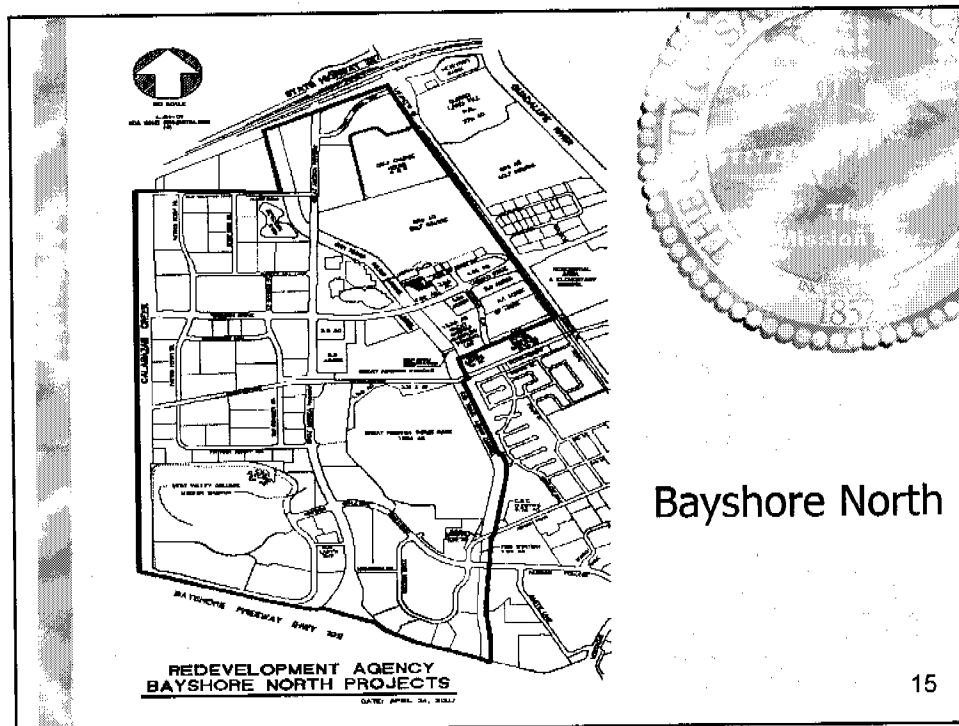
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## RDA Summary – Level 2



## Bayshore North & University Project Areas

- 
- Maps
  - Tax Increment
    - Definition
    - Amount
  - Affordable Housing Set-Asides
  - Projects
  - Budgets
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## Bayshore North

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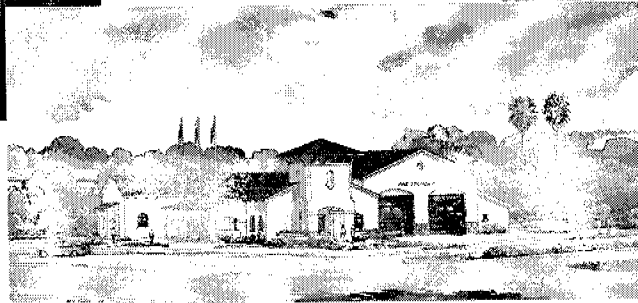
## Completed Projects

- Great America Theme Park Purchase (Land)
- North Bayshore Infrastructure
- Convention Center Complex: Original, Expansion (Meeting Hall), Planned Expansion (Ballroom)
- Parking Structure: Existing and Planned New
- Planned New Library
- Tasman Bridge Project
- San Tomas Aquino Saratoga Creek Trail
- Youth Soccer Park
- Fire Station #6
- Yerba Buena Site Remediation
- Yerba Buena Wetland Mitigation
- Golf Course: Relocation of Selected Holes, Perimeter Drainage, Landfill Cut-off Wall
- Various Affordable Housing and Habitat for Humanity Projects

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Convention Center



Fire Station 6 at Rivermark

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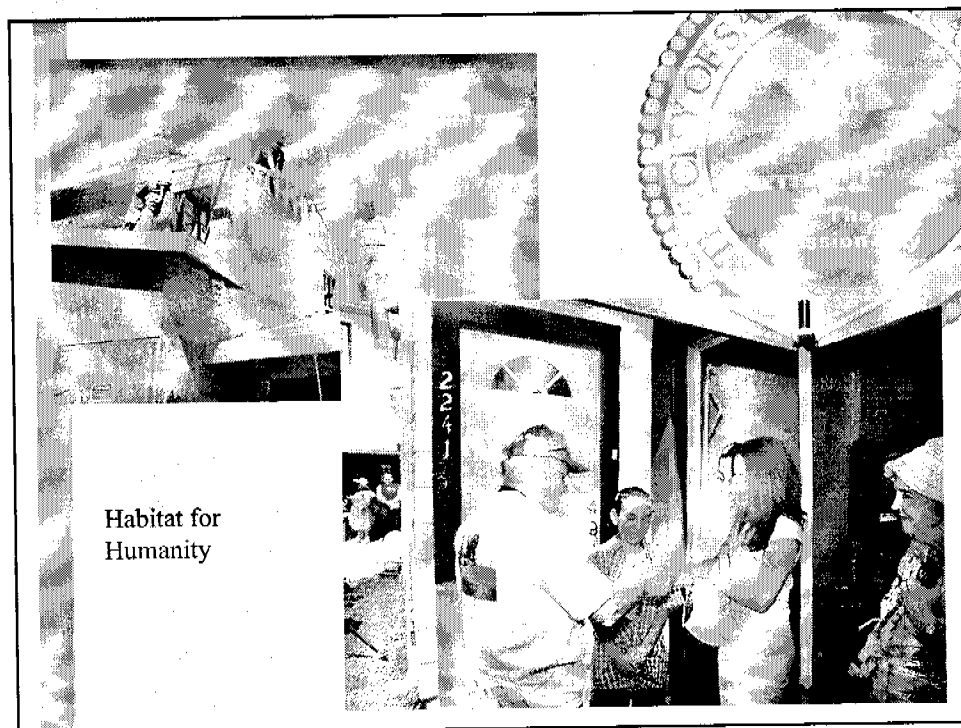
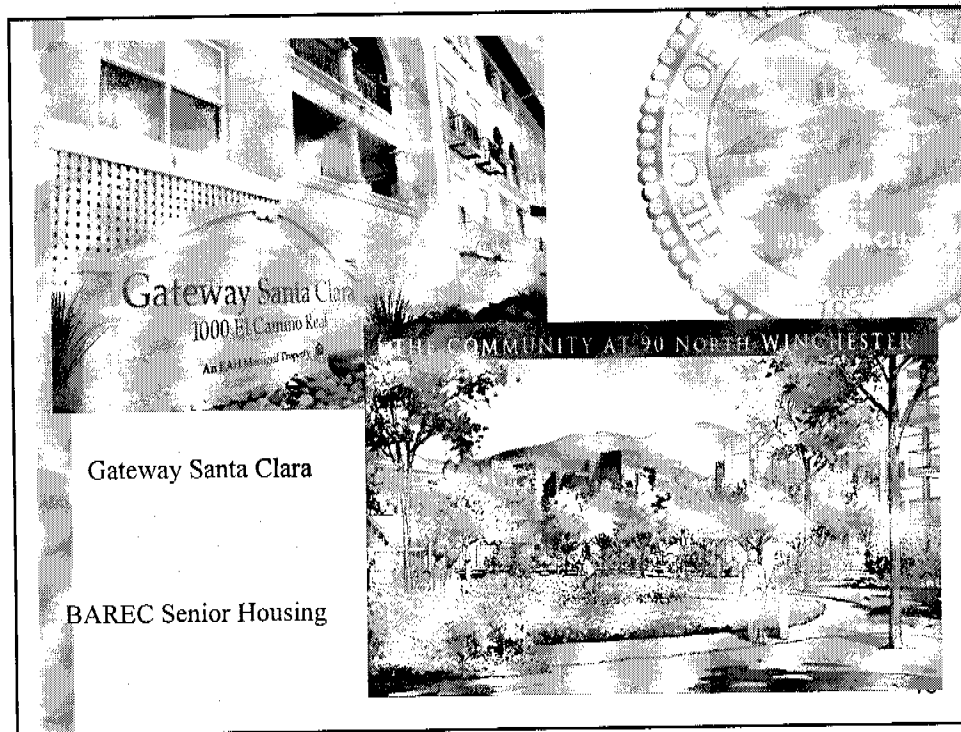


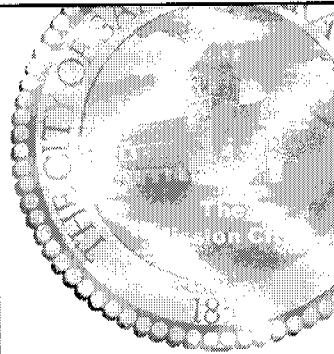
Youth Soccer Park



San Tomas Aquino  
Saratoga Creek Trail

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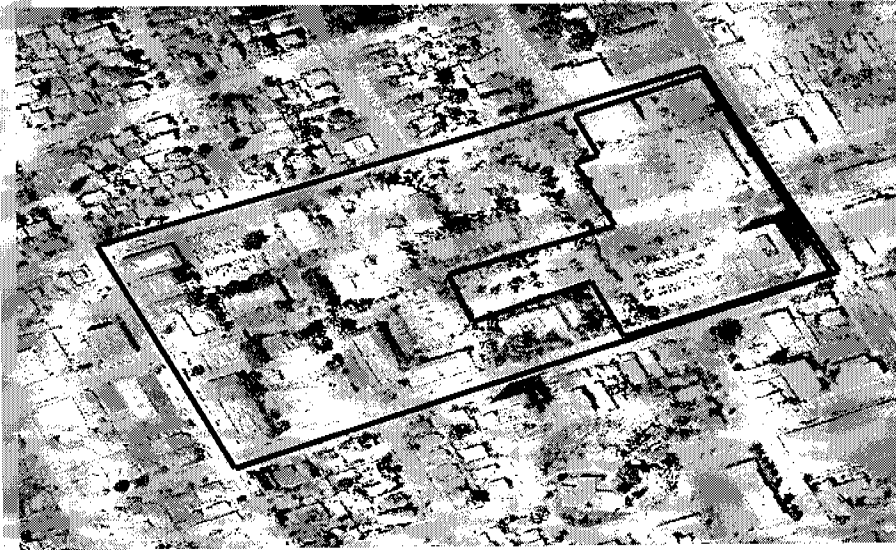
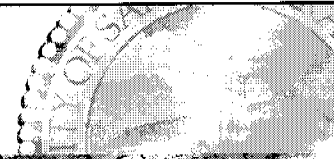
Affordable  
Housing – John  
Burns Gardens



Sobrato Family Living Center

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## University Area

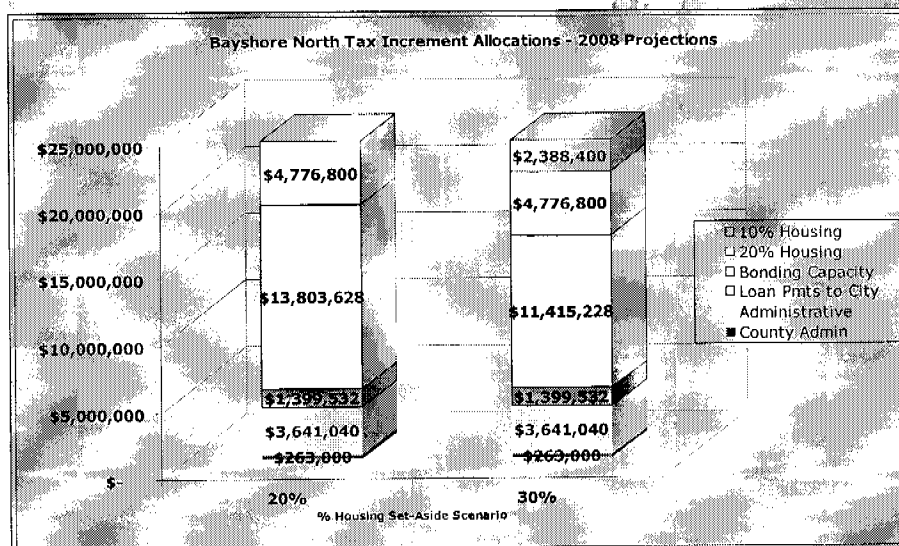


## Affordable Housing Set-Aside

- Requirement: RDA must use at least 20% of tax increment revenue "for the purpose of increasing, improving, and preserving the community's supply of low and moderate-income housing available at affordable housing cost." Code 33334.2
- Council policy (2002-03)
  - This determination is made on an annual basis
  - Bayshore North additional 10% for housing, total 30%
  - For 2006-07, additional 10% equals \$2.2 million
  - University 20% - for 2006-07 \$100 thousand
- Funds can be used for housing projects anywhere in City

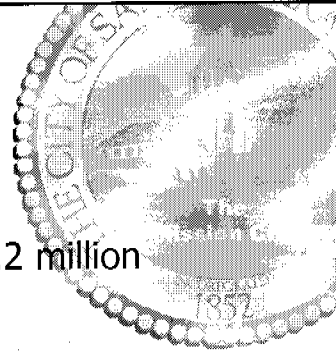
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## Bayshore North – Bonding Capacity



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## RDA Budget 2006-07



Total Revenues: \$39.1 million

- Tax Increment Revenues: \$21.2 million
  - North of Bayshore \$20.66 million
  - University \$580 thousand
  - Total Housing Set Aside \$6.3 million
- Lease Revenues: \$11.6 million per year
  - Techmart \$1 million
  - Hyatt Regency (formerly Westin) \$1.2 million
  - Great America Theme Park \$5.3 million
  - Santa Clara Hilton \$400,000
  - Irvine Gateway Project \$3.6 million
- Interest Income and Other Income: \$6.3 million

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## RDA Budget 2006-07



Total Budgeted Appropriations 2006-07  
\$42.9 million

- Debt Service \$13.7 million
- Capital Projects
  - Housing \$9.3 million
  - RDA capital projects \$4.7 million
- Lease payments due to City \$11.6 million
- Agency operations \$3.5 million

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## RDA Cash Position

- North of Bayshore \$113.5 million balance as of March 31, 2007
- Funds from accumulated increment, bonding interest earnings net of expenditures for completed and current projects
  - Parking Garage \$38.6 million
  - Ballroom expansion \$13.8 million
  - Bayshore North Branch Library \$11.7 million planned (\$1.7 million appropriated, \$10 million in bond proceeds)
  - San Tomas Aquino Saratoga Creek Trail \$7.6 million
  - Convention Center Fire Alarm Upgrade \$1.3 million
  - Wetland Mitigation \$2.5 million
  - Remainder of \$34.9 million among 14 projects and unallocated
    - \$ 3.3 million for 14 projects
    - \$31.6 million unallocated

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## RDA Current Position

- Of remaining \$31.6 million unallocated, \$30 to \$33 million needed for following:
  - Additional \$20 million for Ballroom expansion
  - Structure on roof of Parking Garage \$7 million
  - Northside Library additional costs \$3 million to \$6 million
- University Project balance March 31, 2007 \$2.0 million for Downtown Revitalization

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## RDA Current Position - Housing

Affordable Housing Set Asides \$29.2 million balance as of March 31, 2007

- Funds from accumulated set-asides, interest earnings, net of prior year's expenditures for completed and current projects
- BAREC \$19.7 million for Senior Housing
- Bill Wilson Center \$3.5 million
- First Time Homebuyers/Low-Mod Housing \$6.0 million in 17 projects ranging from minimal to \$2.2 million
- Martin Property Senior Housing \$750 thousand

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## RDA Extensions (completed)

ERAF extensions (total 3 years)

- Approved by RDA Board
- June 2004 and April 2007 extend by three years
- Extends plan effectiveness date and
- Extends date for receipt of tax increment and payment of debt service

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## RDA Extension (option)

Minor SB211: State law January 1, 2002

- Eliminates the time limit for incurring debt
- Adoption by ordinance only; requires no other action
- Amortization of bonded debt to 2026 (Bayshore North) and 2022 (University)
- Triggers Pass Throughs
  - Other taxing entities receive 25% of net tax increment after housing set aside generated from assessed value growth above adjusted base year value
  - Adjusted base year is 2004 for North Bayshore and 2000 for University
  - RDA retains 75% of net tax increment after housing set aside

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## RDA Taxing Entities Who Would Receive Pass Throughs

- City of Santa Clara
- Santa Clara County
- Santa Clara Unified School District
- West Valley Community College
- Santa Clara County Office of Education
- Santa Clara Valley Water District (4 districts)
- Bay Area Air Quality Management
- Santa Clara Bridge District
- El Camino Hospital (North of Bayshore)
- Santa Clara Parking District (University)

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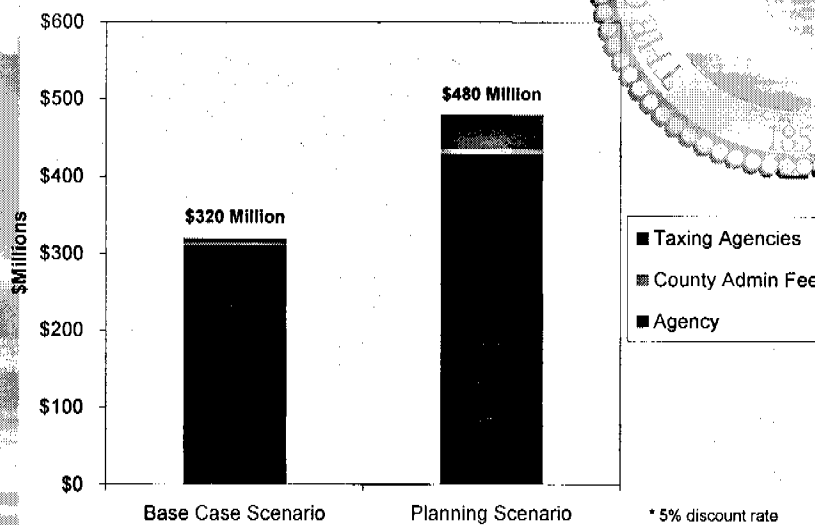
## Total Pass Through Payments - SB 211 Net Present Value of Cumulative Payments

	Bayshore North		University	
	Base Case	Planning	Base Case	Planning
County	1,585,000	14,338,000	150,000	574,000
City of Santa Clara	326,000	3,893,000	50,000	126,000
Santa Clara Unified Schools	1,910,000	17,285,000	181,000	691,000
West Valley Com. College	552,000	4,998,000	52,000	200,000
County Office of Education	198,000	1,789,000	19,000	72,000
SCV Water District	120,000	1,086,000	13,000	49,000
Other Agencies	13,000	121,000	9,000	34,000
Total	4,704,000	43,509,000	473,000	1,746,000
	Cum through 2026	Cum through 2026	Cum through 2021	Cum through 2021
Begin Payments	2013/14	2009/10	2008/09	2008/09

Note: amounts are the net present value of projected payments through the tax increment receipt limit of \$33 million each project area using a discount rate of 5% per year

## Distribution of Bayshore North Property Tax With SB 211 Amendment

(Net Present Value of Revenue Through 2026\*)



## RDA Options: Major Plan Amendments

- Merge project areas
- Raise the cumulative tax increment cap
- Extend plan limits 10 years
  - Requires raising affordable housing set asides to mandatory 30%
- All of the above require finding of blight under newly-tightened definition
  - Physical blight
  - Economic blight
- Study would be required; feasibility is under review

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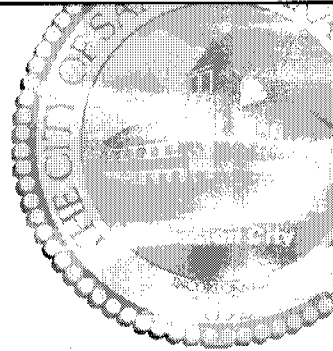
## Physical conditions causing blight include:

- Buildings unsafe or unhealthy for occupancy
- Building code violations, dilapidation and deterioration
- Buildings of substandard, defective, or obsolete design or construction
- Adjacent or nearby uses that are incompatible
- Subdivided lots in multiple ownership of irregular shape and inadequate size to be useful
- Section 33031(a)

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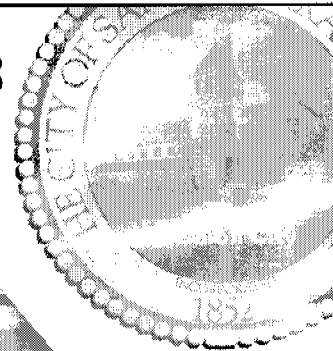
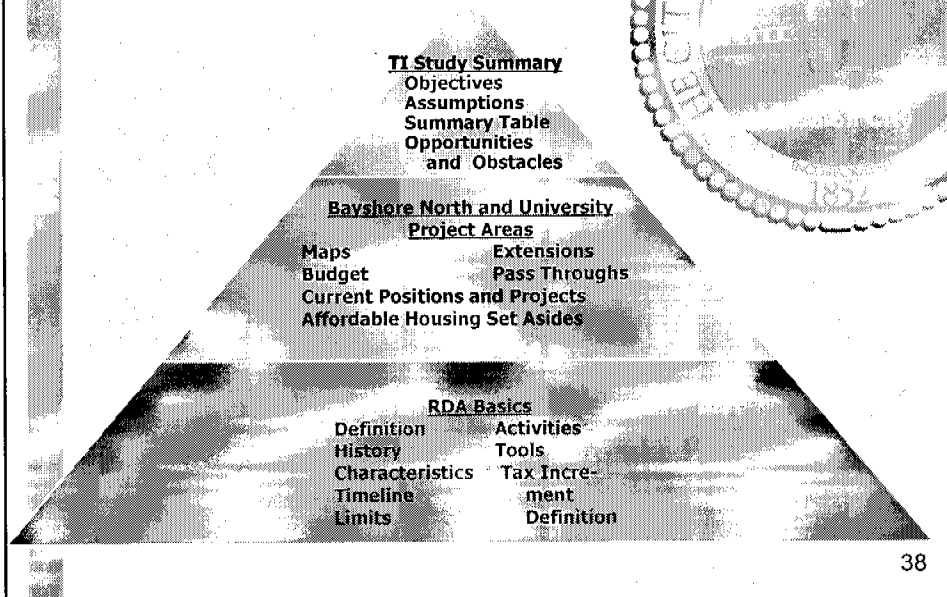
## Economic conditions causing blight include:

- Depreciated or stagnant property values
- Properties containing hazardous wastes
- High business vacancies; low lease rates
- Abandoned buildings
- Lack of common commercial facilities, e.g. groceries, drug stores, banks
- Excess bars, liquor stores, or adult businesses
- Residential overcrowding
- High crime rates
- Section 33031(b)



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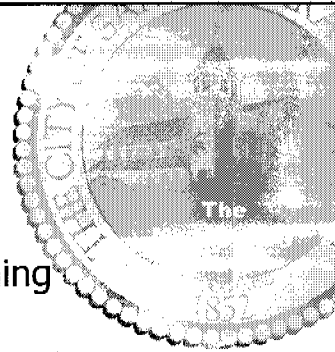
## RDA Summary – Level 3



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## Tax Increment Study

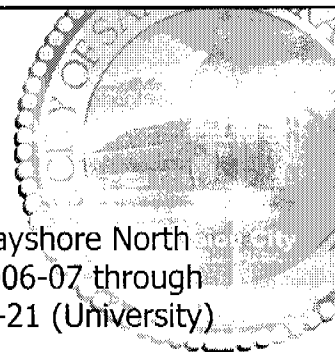
- Objectives
- Scenarios: Base Case and Planning
- Assumptions
- Summary Table
- Opportunities and Obstacles



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## Tax Increment Study Objectives

- Project property tax increment for Bayshore North and University Project Areas from 2006-07 through 2025-26 (Bayshore North) and 2020-21 (University)
- Use projections of additional property taxes to determine what additional bonding capacity exists in both project areas
- Evaluate affordable housing set asides
- Evaluate opportunities and obstacles: each project area, merge two project areas, etc.



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## Tax Increment Projection Scenarios

- Base Case Scenario
  - No New Development
  - Growth in Real Property Assessed Values
    - Bayshore North 3.5%
    - University 2%
  - Estimate current bonding capacity
- Planning Scenario
  - Incorporates potential future development
    - Bayshore North (office/commercial projects; excludes Stadium - impact not known)
    - University (Downtown Revitalization)
  - Existing Real Property Assessed Value Growth
    - Bayshore North: 5%
    - University: 2%

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## Tax Increment Study Assumptions

- Maximize the amount of money (bonds) to borrow
- Bond payments made only from tax increment
- No City obligations (General Fund, Utility, other)
- Affordable housing set-asides at 20% and 30% for Bayshore North, 20% for University
- Project areas amended to extend plan effectiveness (activity) and tax increment receipt per SB 1045 and SB 1096: total 3 years of extension

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## Tax Increment Study Assumptions

- Includes Minor amendment to eliminate debt incurrence limits (SB 211)
  - Adoption of ordinance only
  - Debt repayment to 2026 for Bayshore North and 2022 for University
  - Triggers statutory pass-throughs (taxing entities)
- In order for the RDA to issue additional bonds, the Agency must adopt a Minor plan amendment under SB211

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## Tax Increment Study Findings - Summary

Description	Bayshore North	Bayshore North	University
Annual Tax Increment (2008 Projection)	\$23.8 million	\$23.8 million	\$516 thousand
Tax Increment Cap (Cumulative)	\$1.2 billion	\$1.2 billion	\$16.9 million
	<u>20% Housing Set Aside</u>	<u>30% Housing Set Aside</u>	<u>20% Housing Set Aside</u>
TI Available for Bonds	\$13.8 million	\$11.4 million	\$325 thousand
<b>New Money Bonds*</b>	<b>\$45.3million</b>	<b>\$13.1 million</b>	<b>\$3.1 million</b>
Term	2026	2026	2022
Max Annual Debt Service	\$15.2 million	\$12.5 million	\$325 thousand
Coverage	1.25 x	1.292 x	1.25 x

\* Net of additional funding requirements

Source: Keyser Marston Associates (KMA), April 2007 Exhibit A

Source: KNN Finance (Kelling, Northercross and Nobriga), April 2007 Exhibit B

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## Tax Increment Study Planning Scenario for Bayshore North

- Planning scenario projects additional tax increment, ranging from \$1.3 million to \$11.8 million per year, for years 2009-10 through 2025-26, net of housing set asides of 20% and 30%, net of pass throughs, net of new money bonds
- May be used if it develops on a pay-as-you-go basis
- Cannot be used to issue bonds at this time
- Staff and RDA consultants will explore further

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## Tax Increment Study Opportunities and Obstacles

### Bayshore North Project Area 2008-2009

- Strong Near Term Growth Potential
  - Assessed Valuation Tied to Real Estate Market
  - Market Gaining Strength: Declining Vacancy, Rising Rents and Sales Prices
  - 20% Housing: \$45.3 million in bonding (new money)
  - 30% Housing: \$13.1 million in bonding (new money)
- Affordable Housing Set-Aside (2008 Projection): 20% set aside yields \$4.9 million per year
  - Use for affordable housing anywhere in City (not exclusive to Bayshore North and University Project Areas)

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## Tax Increment Study Opportunities and Obstacles

### University Project Area 2008-2009

- RDA willing to commit tax increment, fee title to property and affordable housing money
- \$ 3.1 million new money bonding capacity
- \$16.9 million cumulative tax increment cap
  - Reached in 2013-14
  - Cannot receive tax increment for project when cumulative cap is reached, therefore cannot be pledged to a developer
- Housing set asides in both project areas going forward total \$4.9 million per year; could use portion to fund affordability requirements in downtown project

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## RDA Summary

- Recommendation: proceed with ordinance for Minor SB211 amendment at the appropriate time
- North of Bayshore new money bonding \$45.3 million, assuming 20% additional affordable housing set aside
- Revisit policy of 30% affordable housing set aside if decision to issue bonds is made (2008-09)
- University new money bonding \$3.1 million, tax increment cap of \$16.9 million
- City considering efficacy of blight study
- Future tax increment cannot be used to issue bonds at this time

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